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PANCANA

annual report
1975

PanCANA INDUSTRIES LTD.

DIRECTORS

DELMER BAIN	General Manager of the Construction Division.
KENNETH G. HEFFEL	President, Great West Steel Industries Ltd., Vancouver, British Columbia.
KENDALL JENNINGS	President, Chairman of the Board, and Chief Executive Officer.
K. MICHAEL JENNINGS	Attorney at Law, Tacoma, Washington, U.S.A.
DAVID B. NICHOLSON	Executive Vice President and General Manager.
THOMAS H. STEVENSON	Director of Permanent Concrete Ltd., Standard Paving and Materials Ltd., and Hub Equipment Ltd.

OFFICERS

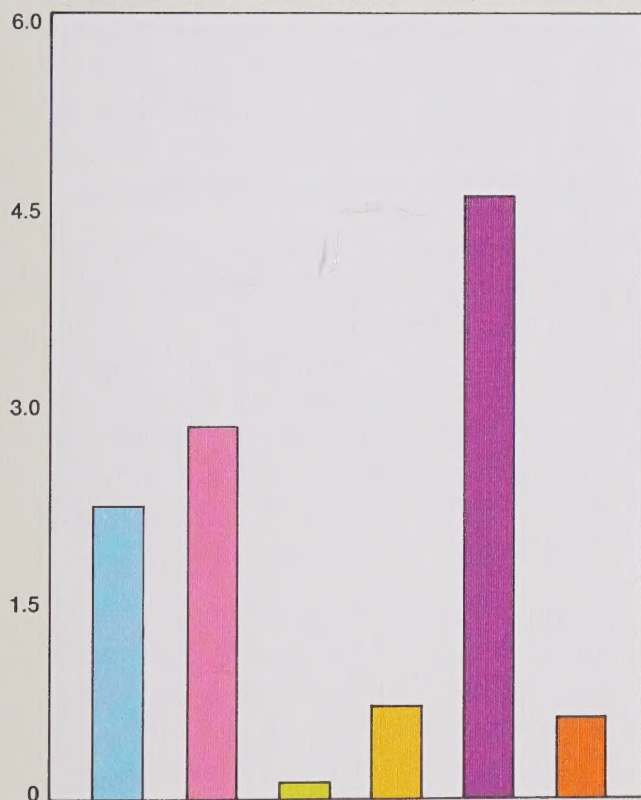
KENDALL JENNINGS	President, Chairman of the Board and Chief Executive Officer.
DAVID B. NICHOLSON	Executive Vice President and General Manager.
DELMER BAIN	Vice President
NEIL L. JENNINGS	Secretary.
DEL. F. ZINGLE	Treasurer and Group Controller.

PanCana Industries is a Canadian-owned group of companies involved in participation in and the provision of services to the natural resources industries. Our activities are largely orientated towards the petroleum and natural gas industry but we also work for all levels of government and for other areas of industry where our skills and resources can most effectively be deployed.

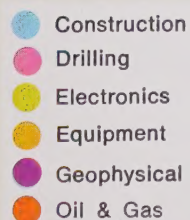
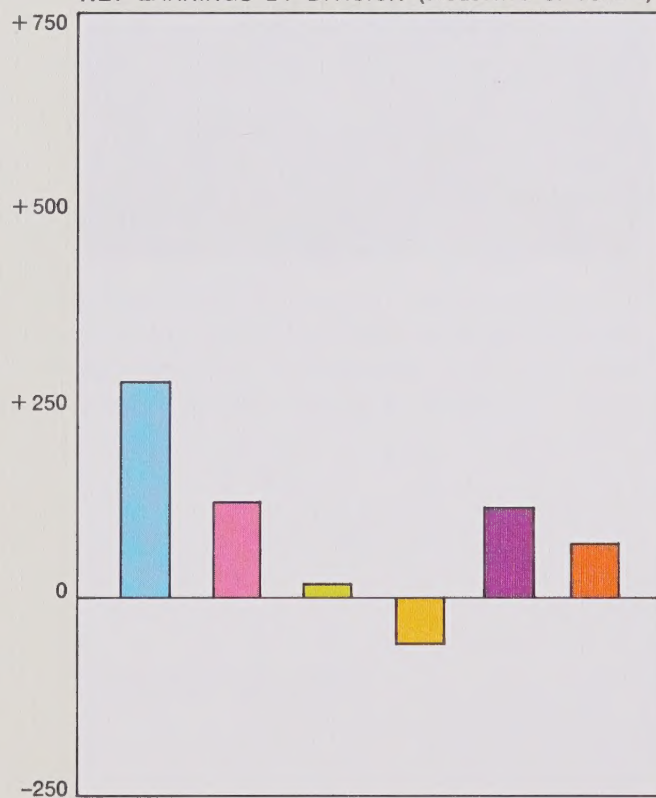
1975 HIGHLIGHTS

	1975 *	1974
Revenue - from operations	\$11,519,403	\$21,094,521
Earnings (Loss) - from operations	297,327	(464,182)
per share	7¢	(17¢)
- extraordinary gain	120,781	404,548
per share	3¢	15¢
Cash Flow - from operations	2,073,011	525,307
Fixed Asset additions - net	4,606,936	2,599,299
Increase (Reduction) Long-term debt	863,588	(1,076,431)
Working Capital	(283,879)	1,434,782
Shares Outstanding	4,116,413	2,649,000
Number of shareholders	1,275	1,292

REVENUE BY DIVISION (millions of dollars)



NET EARNINGS BY DIVISION (thousands of dollars)



*9 months ended September 30, 1975

PRESIDENT'S REPORT TO SHAREHOLDERS



When I last reported to you in March 1975 I informed you that the Company's policy had been changed to emphasize participation in the natural resources industries and in particular, direct participation in oil and gas exploration and production. I informed you also that our policy might involve both expansion into new areas and also disposal of major parts of our then existing business. In the nine months to September 30, 1975, which is now our year end reporting date, I am pleased to tell you that we have taken major steps in the directions which I indicated.

We determined that we should dispose of our Fisheries Division which did not fit conceptually with our policy and also our Geophysical Division which was not producing an adequate rate of return and which also presented a potential conflict of interest with our direct involvement in oil and gas exploration.

The Fisheries Division was sold in the early part of the year to the former owners and PanCana received in exchange the shares of its common stock originally issued when the Division was purchased plus a small amount of cash. As it is not legal for a Company to own its own shares, the returned shares were cancelled with the approval of the Supreme Court of Alberta.

Effective October 1, 1975 we also sold the fixed assets of our Geophysical Division to a management group

from that Company and on closing we will receive cash of \$1,400,000 which is approximately equal to the net book value of these assets. We will also receive a further \$650,000 in installments over the next six years.

While we had not specifically planned to sell our Drilling Division at this time, the opportunity arose to sell the drilling rigs at a most advantageous price. An agreement was signed to sell the rigs for a total of \$3,850,000 effective October 1, 1975. While the drilling rigs have consistently shown a good rate of return based on the historical cost of assets employed, the picture becomes very different if the market value is substituted for historical costs. If the selling price of the rigs is substituted for their book value then the rate of return is less than one half of that indicated in our divisional reporting.

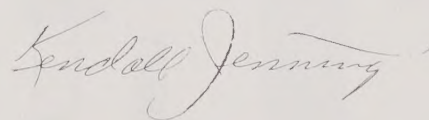
Because of the significance of these sales to the Company's position, we have presented a pro forma balance sheet as at September 30, 1975 giving effect to the sales and from this balance sheet it can be seen that the Company's working capital has increased to over \$3,700,000. In addition, we have negotiated increased lines of credit with our bankers and we have approximately \$4,500,000 of unused bank financing to support our oil and gas operations. You will see elsewhere in this report that by September 30, 1975 we have already invested approximately \$3,000,000 in oil and gas exploration and production and it is our intention to carry on an active exploration program in the future.

Our operations in the Construction industry have again produced an excellent return on our assets employed and our new activities in our joint operation selling Link-Belt cranes and

excavators show signs of developing into a major revenue earner for the Company.

Last year when I wrote my report to you the recession in the North American economy appeared to have bottomed and was showing signs of an up-swing. This recovery has continued through the year but at a somewhat hesitant rate. It appears that the recovery will continue for at least the next one to two years but there still seems to have been no real progress in controlling the underlying imbalances which would indicate that a further cycle of inflation and recession will follow the present recovery. It will be your Company's policy in this environment to invest in assets which are resistant to erosion in the depressionary cycle and to retain as much flexibility as possible.

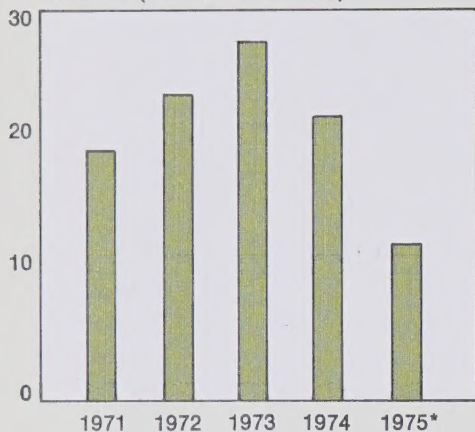
I believe that if we can maintain this basic flexibility of thought and action and can reinvest our surplus funds successfully in the oil and gas industry that the benefit to you as shareholders and to our employees will be very evident in the years to come.



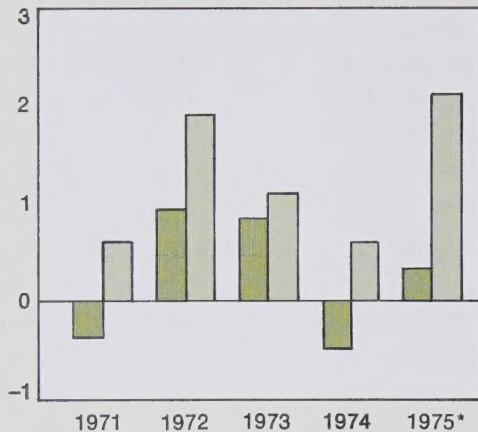
December 23, 1975

FINANCIAL REVIEW

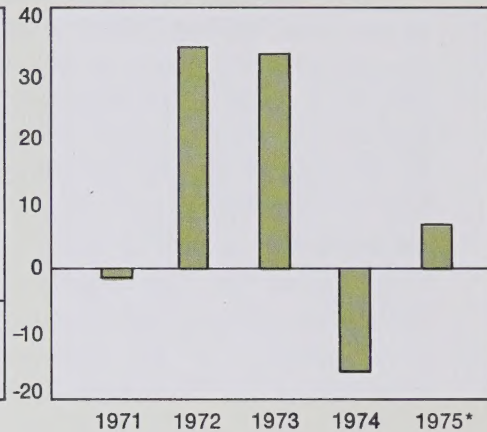
Revenue (Millions of Dollars)



Net Earnings/Cash Flow
(Millions of Dollars)



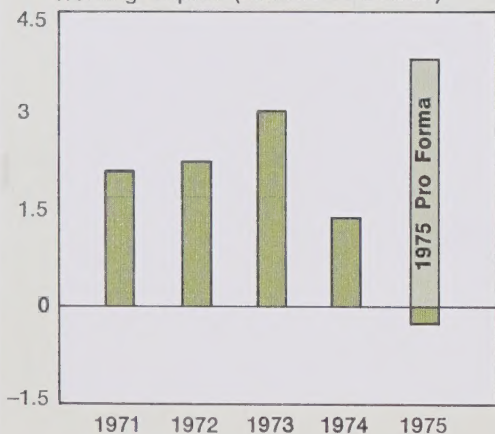
Earnings Per Share (Cents)
Before Extraordinary Items



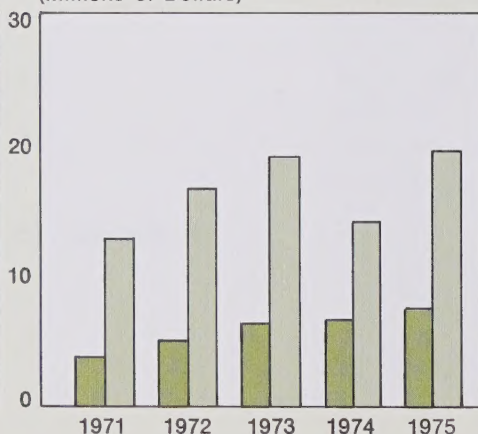
*9 months ended
September 30, 1975

● Net Earnings (before Extraordinary Items)
● Cash Flow

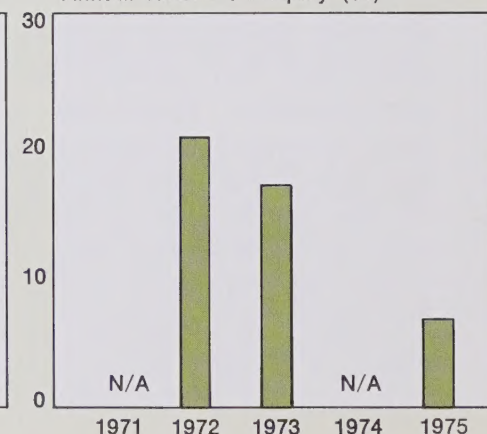
Working Capital (Millions of Dollars)



Shareholders' Equity/Total Assets
(Millions of Dollars)



Annual Return on Equity (%)

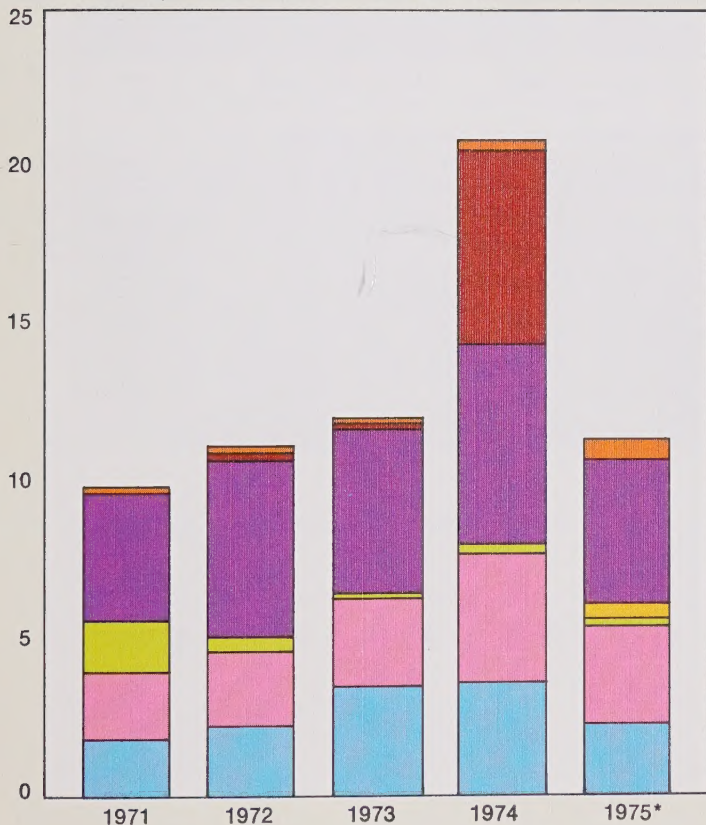


● Shareholders' Equity
● Total Assets

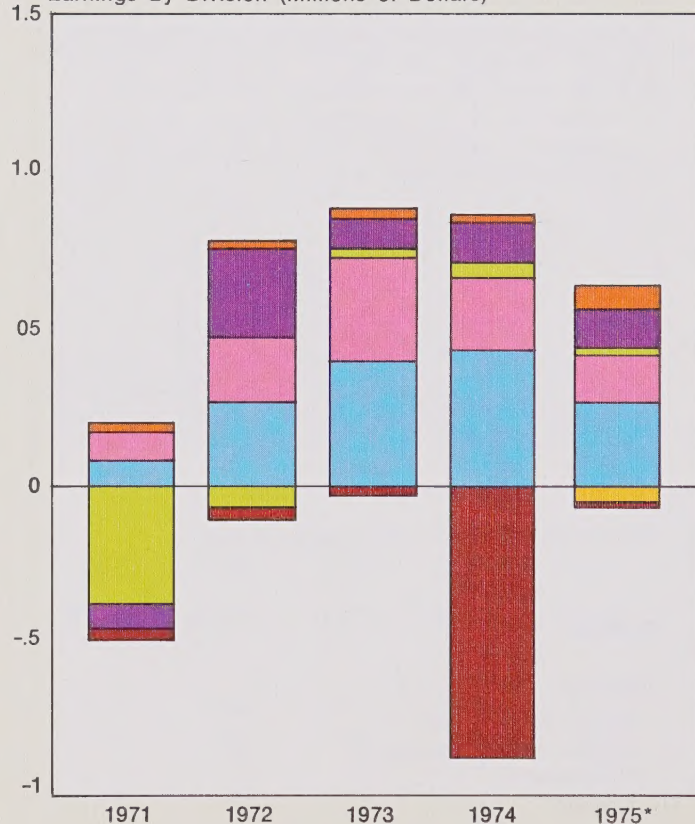
1975 DIVISIONAL REVIEW

The Divisional reports following show the earnings of each operating Division after eliminating intradivisional trading and before extraordinary items. Interest on long-term debt and corporate overhead have not been allocated to Divisions. Return on assets employed (total assets less current liabilities) has been calculated on the average of the assets employed at the end of each quarter. For divisional reporting it has been assumed that all Divisions are subject to full corporation tax rates.

Revenue By Division (Millions of Dollars)



Earnings By Division (Millions of Dollars)



- Construction
- Drilling
- Electronics
- Equipment
- Geophysical
- Pipeline
- Oil & Gas

*9 months ended September 30, 1975

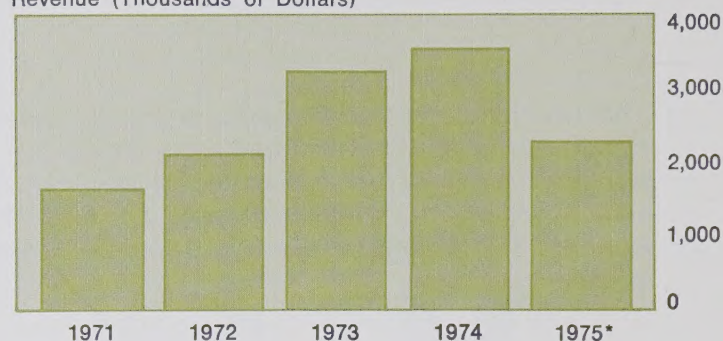
CONSTRUCTION DIVISION

The gross revenue of the Construction Division for the nine months ended September 30, 1975 was approximately the same as that in the similar period in 1974. Pre-tax earnings, however, increased by approximately 20 per cent and the return on assets employed was the second highest in the Division's history.

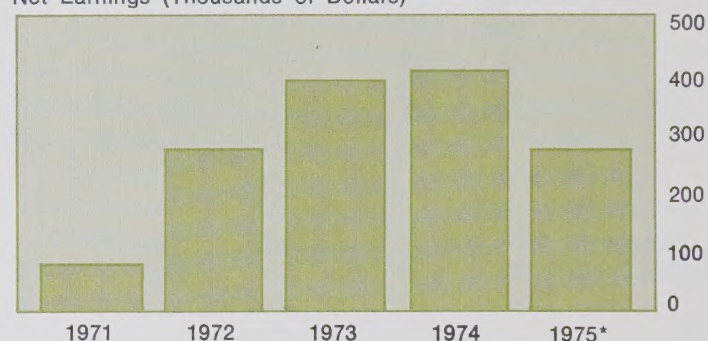
The major centre of activity in 1975 has been in the Fort McMurray, Alberta area where the Division has been working largely on road construction work. We have established a fully equipped camp and maintenance facility near Fort McMurray as we anticipate that this area will be the major focus of our activities for some time.

The Company operated the winter toll road north from Fort Simpson on a cost participation basis in the first three months of the year. It appears, however, that demand for this facility will be small until a plan is agreed for the construction of a pipeline facility in the MacKenzie Valley. The Company is maintaining contact with the Federal Government and with the various potential pipeline consortia and we are anticipating that with the benefit of our knowledge and experience of conditions in the MacKenzie Valley, we will be involved in construction work at the time when major projects get under way.

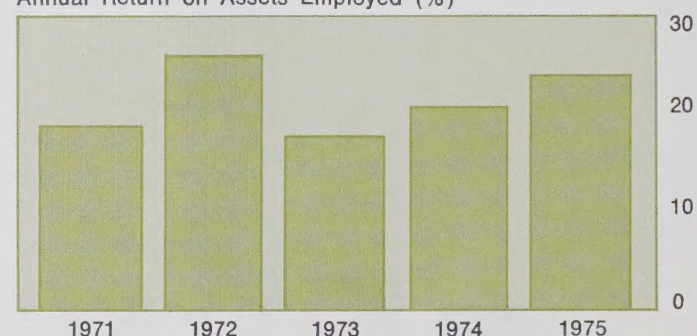
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Annual Return on Assets Employed (%)



FINANCIAL SUMMARY (Thousands of Dollars)

	1971	1972	1973	1974	1975*
Revenue	\$1,673	\$2,077	\$3,291	\$3,576	\$2,201
Expenses					
Direct contract costs	1,292	1,230	2,093	2,294	1,362
General and administration	138	109	94	186	109
Depreciation	28	88	276	264	192
Interest	66	86	41	(23)	(17)
	<u>1,524</u>	<u>1,513</u>	<u>2,504</u>	<u>2,721</u>	<u>1,646</u>
Earnings before taxation	149	564	787	855	555
Taxation	<u>74</u>	<u>282</u>	<u>393</u>	<u>440</u>	<u>273</u>
Net earnings	<u>\$ 75</u>	<u>\$ 282</u>	<u>\$ 394</u>	<u>\$ 415</u>	<u>\$ 282</u>
Assets employed	<u>\$ 408</u>	<u>\$1,117</u>	<u>\$2,248</u>	<u>\$2,028</u>	<u>\$1,631</u>
Annual return on assets employed	<u>18.3%</u>	<u>25.2%</u>	<u>17.5%</u>	<u>20.4%</u>	<u>22.9%</u>

*9 months ended September 30, 1975

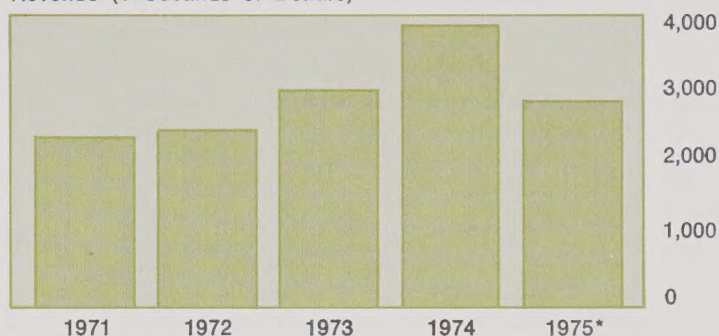
DRILLING DIVISION

In the nine months ended September 30, 1975, the Drilling Division recorded increased activity and revenue compared to the same period in the year 1974. However, inflationary increases in costs eroded margins so that the pre-tax earnings were reduced by approximately one third. Assets employed were approximately the same as in the previous period. Therefore, the return on assets also dropped in proportion.

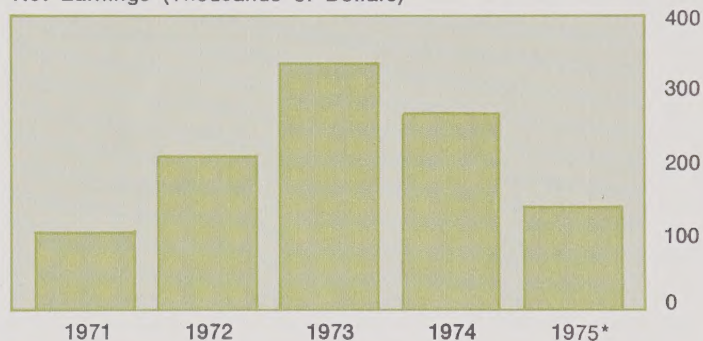
The first three months of the year showed good activity levels but following break-up the exploration programs of the oil companies, on whom we depend for work, were considerably reduced compared with the summers of 1973 and 1974. To some extent this reduction in exploration programs is a residual lag from the cloud of political uncertainty which has been affecting the oil industry in the last two years.

Conditions for the return of the drilling industry in Canada to a more profitable position now appear to be established and there is some evidence that there may even be a shortage of drilling equipment, particularly in the winter months. These improving conditions should enable the Drilling Division to achieve a better margin of return on their assets employed. We are anticipating that this improvement in environment will be particularly marked in the Province of Alberta where the bulk of the Division's activities are carried on.

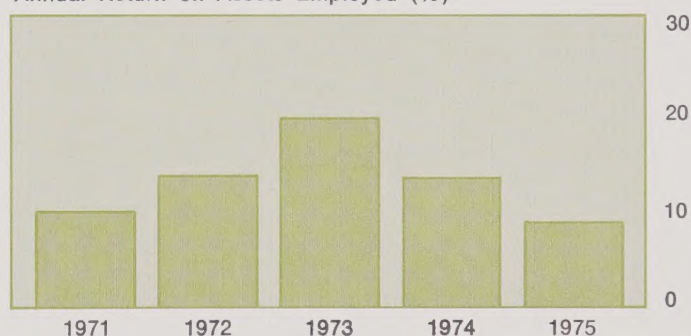
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Annual Return on Assets Employed (%)



FINANCIAL SUMMARY (Thousands of Dollars)

	1971	1972	1973	1974	1975*
Revenue	<u>\$2,294</u>	<u>\$2,469</u>	<u>\$2,913</u>	<u>\$3,944</u>	<u>\$2,895</u>
Expenses					
Direct contract costs	1,767	1,733	1,910	2,928	2,177
General and administration	206	222	240	373	323
Depreciation	76	81	88	131	110
Interest	48	39	28	4	14
	<u>2,097</u>	<u>2,075</u>	<u>2,266</u>	<u>3,436</u>	<u>2,624</u>
Earnings before taxation	197	394	647	508	271
Taxation	<u>99</u>	<u>197</u>	<u>324</u>	<u>261</u>	<u>133</u>
Net earnings	<u>\$ 98</u>	<u>\$ 197</u>	<u>\$ 323</u>	<u>\$ 247</u>	<u>\$ 138</u>
Assets employed	<u>\$1,037</u>	<u>\$1,540</u>	<u>\$1,738</u>	<u>\$1,916</u>	<u>\$1,949</u>
Annual return on assets employed	<u>9.5%</u>	<u>12.8%</u>	<u>18.6%</u>	<u>12.9%</u>	<u>9.4%</u>

*9 months ended September 30, 1975

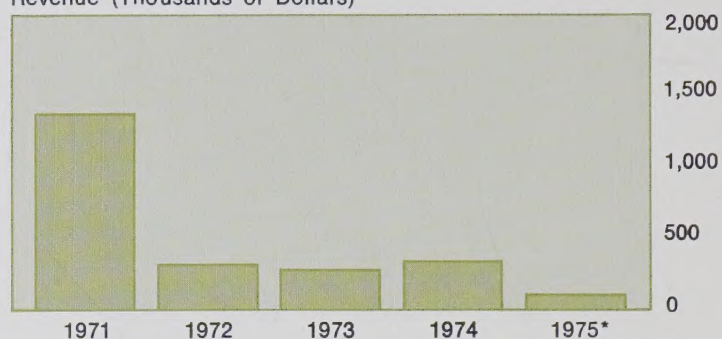
ELECTRONICS DIVISION

Our service and parts sales in connection with Texas Instruments seismic equipment remained at a satisfactory level of activity in 1975 but because of the uncertainties affecting the exploration programs of the oil industry, the seismic contractors were reluctant to place orders for new and updated instruments for their field crews. This downturn in the most profitable part of our business resulted in a substantial drop in gross revenue, earnings and return on assets employed.

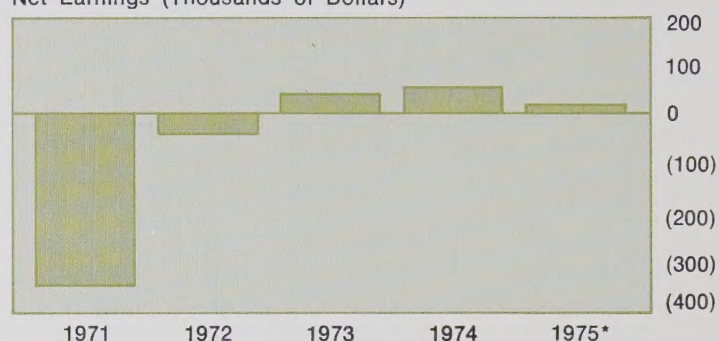
We continued to promote the sale and service of the Sandtron Automation Limited line of control instrumentation but it is too early for this product line to make any significant contribution to our profits.

There are signs that there will be an increase in seismic activity in the next two years and this should result in a restoration of higher profitability for this Division.

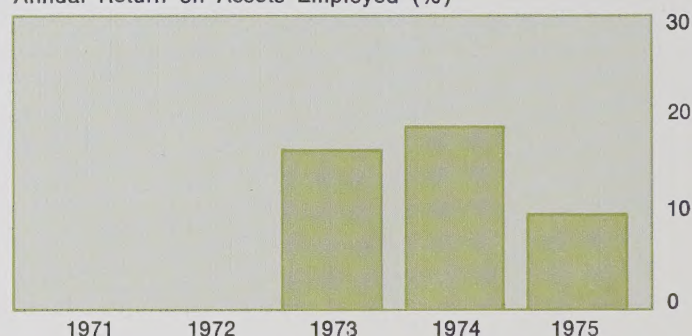
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Annual Return on Assets Employed (%)



FINANCIAL SUMMARY (Thousands of Dollars)

	1971	1972	1973	1974	1975*
Revenue	\$1,294	\$ 262	\$ 227	\$ 294	\$ 151
Expenses					
Cost of sales	1,591	186	156	220	136
General and administration	333	125	10	—	—
Depreciation	10	18	3	4	3
Interest	43	13	—	—	(1)
	1,977	342	169	224	138
Earnings (loss) before taxation	(683)	(80)	58	70	13
Taxation (recovery)	(342)	(40)	29	36	7
Net earnings (loss)	\$ (341)	\$ (40)	\$ 29	\$ 34	\$ 6
Assets employed	\$ 899	\$ 292	\$ 176	\$ 179	\$ 82
Annual return on assets employed	N/A	N/A	16.5%	18.9%	9.8%

*9 months ended September 30, 1975

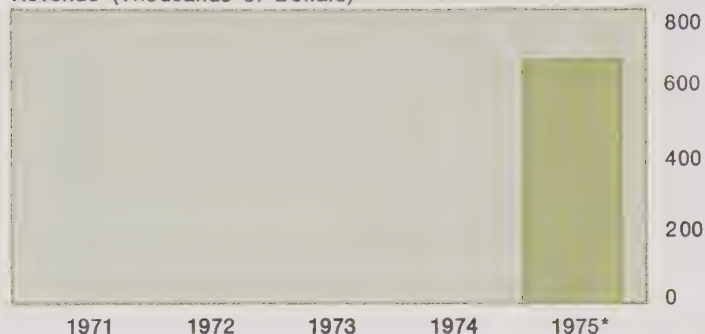
EQUIPMENT DIVISION

PanCana Industries Ltd. in association with Mr. W. E. Bolt formed a new company, W. E. Bolt Equipment Ltd., to sell and service Link-Belt cranes and excavators in the Province of Alberta and in the Yukon and Northwest Territories. The company was granted an exclusive franchise for the Province of Alberta by the Link-Belt Division of FMC Corporation on April 1, 1975. A Calgary office and workshop had already been established and inventories of machines and parts were purchased. In order to more fully service the market in our territory, we also established sales and service facilities in Edmonton.

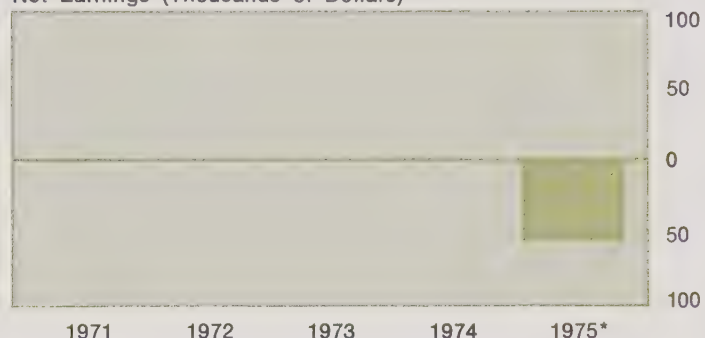
The new Equipment Division has performed very close to its projections in the period to September 30, 1975. By that date, total sales were \$677,000 and each month has shown an increase in activity.

The essential factors in establishing a profitable operation in the equipment business are primarily the quality of the product, the general economic environment in which the Company operates and the capabilities and enthusiasm of the employees. In all three areas W. E. Bolt Equipment Ltd. is well placed to carve out a profitable future for itself. The quality of the Link-Belt cranes and excavators is unquestioned. The economic environment in Alberta is progressive and expansionary and the team of people that have been put together under Mr. Bolt's direction are well trained in each facet of the business and are enthusiastic to develop the activities of the Division.

Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



FINANCIAL SUMMARY (Thousands of Dollars)

	1975*
Revenue	<u>\$ 677</u>
Expenses	
Cost of sales	516
General and administration	228
Depreciation	4
Interest	<u>46</u>
	<u>794</u>
Earnings (loss) before taxation	(117)
Taxation (recovery)	<u>(58)</u>
Net earnings (loss)	<u>\$ (59)</u>
Assets employed	<u>\$1,453</u>

*9 months ended September 30, 1975

OIL & GAS DIVISION

The major emphasis in PanCana's new activities in the nine months ended September 30, 1975 has been in the oil and gas area. In the period we acquired producing gas interests in the Wainwright and Bantry areas of Alberta for a total consideration of approximately \$3,000,000. The Company also acquired the net assets of 3 Sons Investments Ltd., which Company was primarily engaged in oil and gas operations. In addition, we participated in the drilling of eleven wells which resulted in six gas wells and five dry holes. PanCana's net interest in the six gas wells is equivalent to just over three net wells.

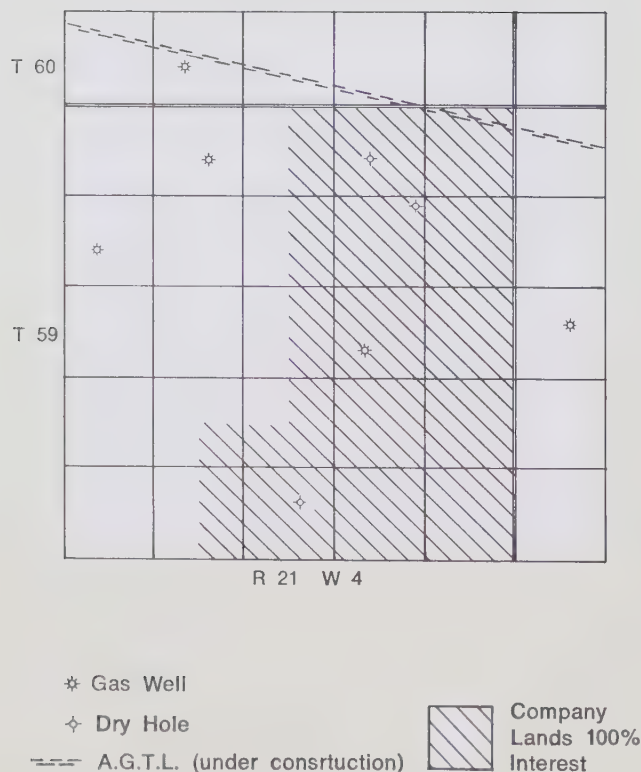
The Company's share of proven reserves, net of royalties, at September 30, 1975 is estimated at 540,000 barrels of oil and 24 billion cubic feet of natural gas.

The Company drilled a dual-zone gas discovery well in the Radway area northeast of Edmonton in February of 1975. We will be carrying out a development program in this area in the early part of 1976 and anticipate that this property will be placed into production by August 1976.

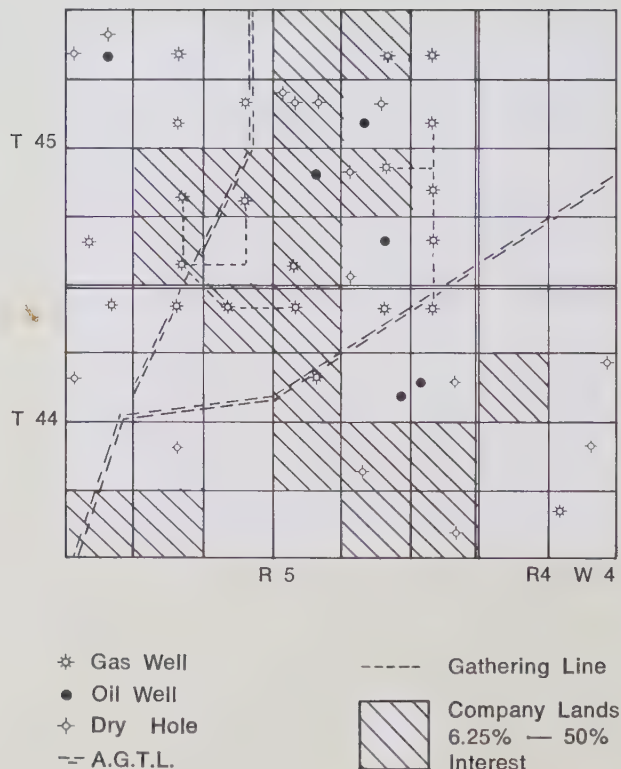
Following our acquisition of various interests in the Wainwright area the Company carried out a development program and participated in the drilling of a further seven wells in the area. Production started from this property in August 1975 and all wells in the Colony and Maclaren zones will be producing by the end of 1975.

Effective September 30, 1975, the Company purchased 20 per cent of a producing gas property in the Bantry area of southeastern Alberta at a

RADWAY AREA



EAST WAINWRIGHT AREA



total cost of \$2,100,000. This property is already in production and we are anticipating that it will make a significant contribution to our cash flow in 1976 and future years.

The Company proposes to carry on an active exploration program in Alberta and also in the United States of America. To this end we have established exploration departments in the Calgary head office and also in Hobbs, New Mexico to handle our activities in the southwestern United States. We anticipate that our oil and gas activities will become our major source of revenue in the next few years. The Company's present working capital and the line of bank financing that we have established should enable us to finance this activity from present funds.

Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Annual Return on Assets Employed (%)



FINANCIAL SUMMARY (Thousands of Dollars)

Revenue

Expenses

Cost of sales

General and administration

Depreciation

Interest

Earnings before taxation

Taxation

Net earnings

Assets employed

Annual return on assets employed

	1971	1972	1973	1974	1975*
Revenue	\$ 131	\$ 62	\$ 126	\$ 118	\$ 598
Expenses					
Cost of sales	50	34	53	76	266
General and administration	32	11	19	16	182
Depreciation	—	—	—	—	24
Interest	—	—	—	—	—
	82	45	72	92	472
Earnings before taxation	49	17	54	26	126
Taxation	25	9	27	13	62
Net earnings	\$ 24	\$ 8	\$ 27	\$ 13	\$ 64
Assets employed	\$ 338	\$ 355	\$ 436	\$ 373	\$1,785
Annual return on assets employed	7.1%	2.2%	6.2%	3.5%	4.6%

*9 months ended September 30, 1975

GEOPHYSICAL DIVISION

The activity level in the nine months ended September 30, 1975 was approximately the same as that recorded in the same period of 1974. The usual low level of activity in the second and third quarters made it difficult for the Division to show an earnings improvement in the nine month period in spite of the evident improvement in market conditions.

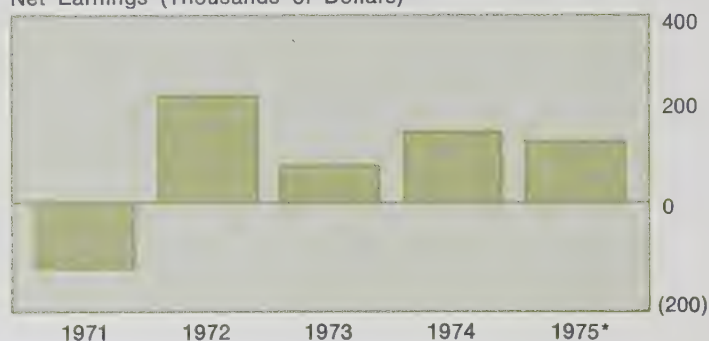
Many of the harsher provisions imposed on the oil industry by the federal and provincial governments in the past two years have now been modified and some further relief has been afforded by an increase in the product prices. Particularly in the Province of Alberta there is an upturn in exploration activity and there is growing optimism that this will extend into British Columbia with the change in political climate in that province.

The hiatus in exploration in the last two years has resulted in a considerable exodus of equipment and it appears that a comparatively small increase in the present level of activity will quickly show up a shortage of first class equipment to carry out the necessary exploration work. Northern Geophysical is in a position to benefit from such an increase in activity as its four crews are equipped with the most modern instrumentation and equipment. The demand for the equipment available to the market should enable a restoration of more reasonable profit margins in the industry and a return on investment which is commensurate with the risks involved.

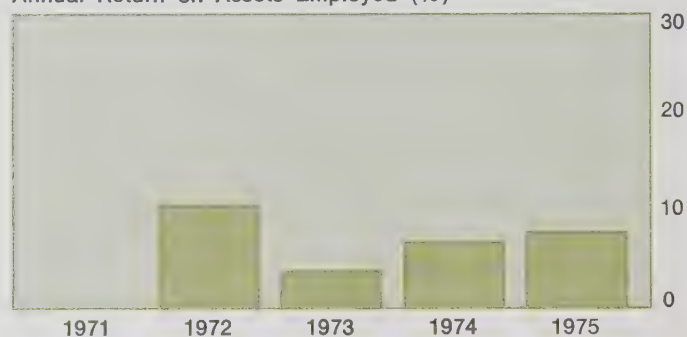
Revenue (Thousands of Dollars)



Net Earnings (Thousands of Dollars)



Annual Return on Assets Employed (%)



FINANCIAL SUMMARY (Thousands of Dollars)

	1971	1972	1973	1974	1975*
Revenue	<u>\$4,556</u>	<u>\$5,972</u>	<u>\$4,889</u>	<u>\$6,231</u>	<u>\$4,633</u>
Expenses					
Direct contract costs	4,163	4,838	3,991	5,277	3,791
General and administration	221	228	246	271	254
Depreciation	357	369	390	400	335
Interest	87	62	86	(10)	(10)
	<u>4,828</u>	<u>5,497</u>	<u>4,713</u>	<u>5,938</u>	<u>4,370</u>
Earnings (loss) before taxation	(272)	475	176	293	263
Taxation (recovery)	<u>(136)</u>	<u>237</u>	<u>88</u>	<u>151</u>	<u>130</u>
Net earnings (loss)	<u>\$ (136)</u>	<u>\$ 238</u>	<u>\$ 88</u>	<u>\$ 142</u>	<u>\$ 133</u>
Assets employed	<u>\$2,303</u>	<u>\$2,317</u>	<u>\$2,323</u>	<u>\$2,332</u>	<u>\$2,467</u>
Annual return on assets employed	<u>N/A</u>	<u>10.3%</u>	<u>3.8%</u>	<u>6.1%</u>	<u>7.2%</u>

*9 months ended September 30, 1975

1975 FINANCIAL STATEMENTS

PAN CANA INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

	NOTES	Nine months ended September 30, 1975 (Note 1)	Year ended December 31, 1974 (Note 4)
REVENUE		<u>\$11,519,403</u>	<u>\$21,094,521</u>
COST AND EXPENSES			
Cost of sales and direct contract costs		8,358,697	19,071,167
General and administration		1,293,172	1,373,720
Depreciation and depletion	2	868,613	854,480
Interest on long-term debt		344,510	401,648
Other interest		<u>50,805</u>	<u>254,368</u>
		<u>10,915,797</u>	<u>21,955,383</u>
EARNINGS (LOSS) BEFORE TAX AND EXTRAORDINARY GAIN		<u>603,606</u>	<u>(860,862)</u>
INCOME TAXES (RECOVERY)			
Current		(31,247)	35,245
Deferred		<u>337,526</u>	<u>(431,925)</u>
		<u>306,279</u>	<u>(396,680)</u>
EARNINGS (LOSS) FROM OPERATIONS		297,327	(464,182)
EXTRAORDINARY GAIN ON SALE OF DIVISIONS, net of tax	4	<u>120,781</u>	<u>404,548</u>
NET EARNINGS (LOSS)		<u>\$ 418,108</u>	<u>\$ (59,634)</u>
EARNINGS PER SHARE			
Earnings (Loss) from operations		7¢	(17¢)
Extraordinary Gain		<u>3¢</u>	<u>15¢</u>
		<u>10¢</u>	<u>(2¢)</u>

PAN CANA INDUSTRIES LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Nine months ended September 30, 1975 (Note 1)	Year ended December 31, 1974 (Note 4)
SOURCE OF WORKING CAPITAL		
Operations, after adjustments for non-cash items	\$ 2,073,011	\$ 525,307
Proceeds of sale of Equipment Division	—	5,075,000
Less Working Capital of that Division	—	(3,680,775)
Common shares issued on acquisition of 3 Sons Investments Ltd.	1,591,196	—
Increase in long-term debt	<u>2,608,746</u>	<u>1,014,259</u>
	<u>6,272,953</u>	<u>2,933,791</u>
APPLICATION OF WORKING CAPITAL		
Acquisition of 3 Sons Investments Ltd.		
Fixed assets acquired	3,524,170	—
Long-term debt assumed	<u>1,885,104</u>	<u>—</u>
	1,639,066	—
Fixed asset additions (net)	4,606,936	2,599,299
Reduction of long-term debt	1,745,158	2,090,690
Other	<u>454</u>	<u>58,948</u>
	<u>7,991,614</u>	<u>4,748,937</u>
WORKING CAPITAL DECREASE	<u>\$ 1,718,661</u>	<u>\$ 1,815,146</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Nine months ended September 30, 1975 (Note 1)	Year ended December 31, 1974 (Note 4)
RETAINED EARNINGS at beginning of period	\$ 114,750	\$ 174,384
Net earnings (loss)	<u>418,108</u>	<u>(59,634)</u>
RETAINED EARNINGS at end of period	<u>\$ 532,858</u>	<u>\$ 114,750</u>

PAN CANA INC

AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS	NOTES	SEPTEMBER 30, 1975	DECEMBER 31, 1974
		1975	PRO FORMA (NOTE 5c) (Note 4)
CURRENT ASSETS			
Cash		\$ 80,997	\$ 2,432,842
Accounts receivable		2,657,145	2,625,138
Current maturities of notes receivable	5	—	100,000
Inventories	2	2,111,861	1,970,862
Prepaid expenses and deposits		<u>196,150</u>	<u>193,319</u>
		5,046,153	6,567,420
NOTES RECEIVABLE	5	—	1,000,000
FIXED ASSETS, at cost less accumulated depreciation and depletion	6	14,251,009	11,405,649
OTHER ASSETS		279,853	223,990
APPROVED BY THE BOARD OF DIRECTORS:			
	Director		
	Director		
		<u>\$19,577,015</u>	<u>\$19,951,800</u>
			<u>\$14,331,483</u>

INDUSTRIES LTD.

Y COMPANIES
BALANCE SHEET

LIABILITIES	NOTES	SEPTEMBER 30, 1975	DECEMBER 31, 1974	
		1975	PRO FORMA (NOTE 5c)	(NOTE 4)
CURRENT LIABILITIES				
Bank indebtedness	9	\$ 1,726,708	\$ —	\$ 1,291,000
Accounts payable		2,875,306	2,859,971	3,415,185
Current maturities of long-term debt	2, 7	660,640	660,640	250,000
Income taxes	2	<u>67,378</u>	<u>67,378</u>	<u>176,453</u>
		5,330,032	3,587,989	5,132,638
LONG-TERM DEBT	2, 7, 9	5,383,626	4,939,352	2,679,057
DEFERRED INCOME TAXES	2	<u>1,743,082</u>	<u>2,799,225</u>	<u>1,408,826</u>
		<u>12,456,740</u>	<u>11,326,566</u>	<u>9,220,521</u>
SHAREHOLDERS' EQUITY				
CAPITAL STOCK				
Authorized 9,450,000 common shares of no par value				
Issued 4,116,413 (1974 - 2,649,000) common shares	8	4,996,221	4,996,221	4,996,212
RETAINED EARNINGS		532,858	2,037,817	114,750
CONTRIBUTED SURPLUS	8	<u>1,591,196</u>	<u>1,591,196</u>	<u>—</u>
		7,120,275	8,625,234	5,110,962
		<u>\$19,577,015</u>	<u>\$19,951,800</u>	<u>\$14,331,483</u>

NOTES TO FINANCIAL STATEMENTS

1. CHANGE OF YEAR END

Following the statutory amalgamation with 3 Sons Investments Ltd. (see Note 3), the amalgamated Company selected September 30, as its year end. In these statements the 1975 statement of earnings represents the result of operations for the nine months ended September 30, 1975 and the 1974 comparative figures represent the results for the twelve months ended December 31, 1974.

2. ACCOUNTING PRINCIPLES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its operating divisions which are owned as follows:

		%
Construction	Bain Bros. Construction	100
Drilling	Jennings International Drilling	100
Electronics	Western Electronic Systems	100
Equipment	W. E. Bolt Equipment Ltd.	75
Geophysical	Northern Geophysical Ltd.	100
Oil & Gas	PanCana Industries Ltd.	100
	Admiralty Oil & Gas Ltd.	100
Pipeline	PanCana-Associated Contractors Ltd.	51

100 per cent of the losses of W. E. Bolt Equipment Ltd. from March 1, 1975 (start of operations) has been included in PanCana's financial statement as PanCana has undertaken to provide all the financing necessary for this division. Such losses are recoverable in priority to the interests of the minority shareholder.

The results of pipeline contracts entered into by PanCana-Associated Contractors Ltd. are included in accordance with the percentage of participation in each contract by PanCana Industries Ltd. This participation percentage may vary on each contract.

(b) Depreciation

Depreciation on assets, other than petroleum and natural gas equipment, is provided on a straight-line basis at rates which will amortize the cost of the assets over their estimated useful lives recognizing residual values where appropriate. The annual rates of depreciation on major classes of assets are:

Construction Equipment	18 to 20 per cent
Drilling Rigs	10 per cent (when working)
Geophysical Instrumentation	12.5 per cent
Tracked Vehicles	15 per cent
Other Vehicles	20 per cent

(c) Oil and Gas

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil, gas and related reserves are capitalized in an oil and gas cost pool. Such costs include acquisition costs, geological and geophysical expenses, costs of drilling both producing and non-producing wells, and overhead expense related to exploration activities. All costs are amortized using the composite unit of production method based on total estimated proven recoverable reserves. Depreciation of petroleum and natural gas equipment is similarly provided on the composite unit of production method.

(d) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on reported earnings. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are deferred by claiming capital cost allowances and expensing exploration and development costs in excess of the depreciation and depletion provisions reflected in the financial statements.

(e) Current Maturities of Long-Term Debt

Where long-term debt is specifically secured by charges on revenue-producing assets and it is anticipated that future repayments of the debt will be made out of future revenue from the assets, no part of the debt is classified as a current liability. With respect to other long-term debt, principal payments due within twelve months of the balance sheet date are classified as current liabilities.

(f) Repairs and Maintenance.

Drilling operations are charged with a fixed amount based on a weighted average of past years' repair costs for each day that their equipment is working. Actual repairs are charged against the allowance so created.

(g) Inventories

Inventories are valued at lower of cost and net realizable value.

3. AMALGAMATION WITH 3 SONS INVESTMENTS LTD.

During the period the Company amalgamated with 3 Sons Investments Ltd., a Company primarily engaged in oil and gas operations, and continued operations under the name of PanCana Industries Ltd. This amalgamation constituted, in effect, an acquisition by PanCana of all the net assets of 3 Sons (other than PanCana shares held by 3 Sons) for 1,467,413 shares of the Company. This acquisition, effective January 1, 1975, was accounted for as a purchase and the results of operations of 3 Sons are included in the consolidated statement of earnings from that date. The assets of 3 Sons were independently appraised and were purchased by PanCana at the appraised values. The differences between the net book values recorded in the financial statements of 3 Sons and the appraised values have been allocated to the acquired assets and will be accounted for on the same basis as the related assets.

Details of the "acquisition equation" as prescribed by the regulations made under the Ontario Securities Act are as follows:

Total net assets	\$ 477,127
Adjustment of net assets to fair value	<u>1,114,069</u>
	<u>\$ 1,591,196</u>
Consideration given:	
2,552,580 common shares of the company issued on amalgamation	
<u>1,085,167</u> shares of the company held by 3 Sons	
<u>1,467,413</u> shares issued (\$1.08 per share)	<u>\$ 1,591,196</u>

4. SALE OF FISHERIES DIVISION

In 1971 the Company combined its operations with Strom Fisheries, Inc., and accounted for this business combination as a pooling of interest. During 1975 the shares and assets of Strom were returned to its original shareholders in substantially the same form as they were contributed to the combined company, and PanCana received the 550,000 shares of its common stock originally issued and \$125,000 (U.S.). These shares were subsequently cancelled. The consolidated financial statements of PanCana have been restated, as a result of this transaction, to reflect the consolidated financial position and the consolidated results of operations as if the combination with Strom Fisheries, Inc. had not taken place.

5. SUBSEQUENT EVENTS

Effective October 1, 1975 the Company sold the equipment and other fixed assets of its Drilling and Geophysical Divisions in two separate transactions.

(a) Operating Results

The operating results of these Divisions are included in the consolidated statement of earnings and are summarized as follows:

(i) For Drilling:

	Nine months ended September 30, 1975	Year ended December 31, 1974
REVENUE	<u>\$2,894,628</u>	<u>\$3,944,428</u>
COST AND EXPENSES		
Cost of sales	2,177,035	2,928,815
General and administration	323,896	373,164
Depreciation	110,384	130,561
Interest	<u>20,248</u>	<u>12,870</u>
	<u>2,631,563</u>	<u>3,445,410</u>
EARNINGS BEFORE TAX	263,065	499,018
INCOME TAXES	<u>129,586</u>	<u>256,994</u>
NET EARNINGS	<u>\$ 133,479</u>	<u>\$ 242,024</u>

(ii) For Geophysical:

	Nine months ended September 30, 1975	Year ended December 31, 1974
REVENUE	<u>\$4,633,472</u>	<u>\$6,230,837</u>
COST AND EXPENSES		
Cost of sales	3,791,191	5,277,493
General and administration	253,916	270,995
Depreciation	334,561	399,588
Interest	<u>22,327</u>	<u>20,683</u>
	<u>4,401,995</u>	<u>5,968,759</u>
EARNINGS BEFORE TAX	231,477	262,078
INCOME TAXES	<u>114,026</u>	<u>134,970</u>
NET EARNINGS	<u>\$ 117,451</u>	<u>\$ 127,108</u>

(b) Sale Consideration

(i) Drilling

The consideration for the sale is \$3,516,417 receivable as follows:

On closing	\$ 3,066,417
Note receivable	<u>450,000</u>
	<u>\$ 3,516,417</u>

The note is receivable by way of credits for participation in exploration programs or in cash by November 1979.

(ii) Geophysical

The consideration for the sale is \$2,118,914 receivable as follows:

On closing	\$ 1,468,914
Note receivable	<u>650,000</u>
	<u>\$ 2,118,914</u>

The note is receivable in thirteen installments of \$50,000 in the years 1976 to 1982 and bears interest at prime rate plus 3 per cent. The security on the note is a second fixed and floating charge debenture on the assets and undertaking of the purchasing company.

(c) Pro Forma Balance Sheet

In view of the materiality of the above-noted sales and to provide shareholders with a clear understanding of the consolidated financial position of the company subsequent to these sales, a pro forma Balance Sheet giving effect to the sales as at September 30, 1975 has been included in the Financial Statements.

6. FIXED ASSETS

Fixed assets comprise:

	1975		1974	
	Cost	Depreciation & Depletion	Net	Net
Construction equipment	\$ 2,223,157	\$ 596,711	\$ 1,626,446	\$ 1,688,461
Drilling rigs and equipment	2,617,570	1,562,298	1,055,272	1,113,281
Geophysical exploration equipment	3,884,492	2,283,687	1,560,805	1,614,806
Petroleum and natural gas properties	9,652,331	1,362,904	8,289,427	2,804,687
Mineral properties	241,203	—	241,203	28,549
Land and buildings	1,358,451	39,578	1,318,873	240,934
Miscellaneous	223,762	64,779	158,983	101,949
	<u>\$20,160,966</u>	<u>\$ 5,909,957</u>	<u>\$14,251,009</u>	<u>\$7,592,667</u>

7. LONG-TERM DEBT

Long-term debt comprises:

	1975	1974
PanCana Industries Ltd.		
Bank term loan, interest @ 2% over prime Canadian bank rate, payable in 1976.	\$ 300,000	\$ 550,000
Oil & Gas production loans, interest @ 1¼% over prime Canadian bank rate, payable in varying monthly installments to 1980.	4,068,145	1,459,945
Mortgages on real estate, interest at 7 - 8%, payable in varying installments to 1986	127,500	—
Unsecured notes, payable in 1976.	226,140	—
Unsecured notes, interest at 7 - 9.75%, payable in 1977.	289,468	—
Unsecured notes, payable to a Director and Officer, interest at prime Canadian bank rate, payable in varying installments in 1977 and 1978.	416,985	—
Miscellaneous	146,028	349,112
Admiralty Oil & Gas Ltd.		
Oil & Gas production loan, interest at 1¼% over prime Canadian bank rate, payable in equal installments to 1979.	470,000	570,000
	\$ 6,044,266	\$ 2,929,057
Less current maturities (Note 2e)	660,640	250,000
	<u>\$ 5,383,626</u>	<u>\$ 2,679,057</u>

Payments required in the next five years to meet installments on the above debt are:

Year ended September 30, 1976	\$ 2,294,506
1977	1,418,913
1978	991,092
1979	712,000
1980	520,145

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

(a) Changes in Capital Stock and Contributed Surplus:

	Capital Stock		Contributed Surplus
	Shares	Consideration	
Balance outstanding as at December 31, 1974	3,199,000	\$4,936,212	\$ —
Shares cancelled on reversal of Strom Fisheries combination (Note 4)	550,000	60,000	
	2,649,000	4,996,212	
Shares issued on amalgamation with 3 Sons Investments Ltd. (Note 3)			
Total shares issued	2,552,580		
less shares held by 3 Sons cancelled	1,085,167	1,467,413	9
		4,116,413	1,591,196
		\$4,996,221	\$1,591,196

(b) Stock Options

There are options to employees outstanding in respect of 117,900 shares at \$2.50 per share exercisable in varying amounts to 1976.

9. ASSETS SUBJECT TO LIEN OR PLEDGE

The bank indebtedness and term loan are secured by a general assignment of book debts and a floating charge debenture. This debenture requires the approval of the bank prior to the payment of any dividend. The Company's oil and gas properties are charged to secure the oil and gas production loans. Certain seismic exploration equipment, vehicles and inventory are subject to conditional sales contracts or chattel mortgages.

10. STATUTORY INFORMATION

In 1975 the Company and its subsidiaries paid \$268,500 (1974 - \$286,500) remuneration to directors, officers and senior employees.

Thorne
Riddell
& Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
PanCana Industries Ltd.

We have examined the consolidated balance sheet and the proforma consolidated balance sheet of PanCana Industries Ltd. and its subsidiaries as at September 30, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the nine months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the consolidated balance sheet presents fairly the financial position of the companies as at September 30, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position present fairly the results of their operations and the changes in their financial position for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In our opinion also, the proforma consolidated balance sheet presents fairly the financial position of the companies as at September 30, 1975 after giving effect, as at that date, to the sale of net assets as outlined in note 5 to the financial statements.

Thorne Riddell & Co.
Chartered Accountants

Calgary, Alberta
December 22, 1975

HISTORICAL REVIEW

FINANCIAL POSITION

	1975*	1974	1973 (Thousands of Dollars)	1972 Dollars	1971	1970
Net Working Capital	(283)	1,434	3,250	2,804	2,021	1,035
Net Fixed Assets	14,251	7,593	7,269	5,239	4,133	4,860
Other Assets	280	171	192	132	152	160
Total Assets	19,577	14,331	19,473	16,200	12,833	11,232
Long-Term Debt	5,383	2,679	3,874	2,843	2,216	1,703
Deferred Income Taxes	1,743	1,408	1,665	1,125	853	1,441
Shareholders' Equity	7,120	5,110	5,170	4,239	3,514	3,262

REVENUE AND RELATED DATA

Sales	11,519	21,094	26,818	23,112	18,289	15,160
Earnings from Operations before deducting the following:	1,868	649	2,897	2,685	829	1,787
Depreciation and Depletion	868	855	859	634	524	547
Interest on long-term debt	345	400	303	251	169	162
Other interest	51	254	427	347	329	168
Earnings (loss) before income taxes	604	(860)	1,308	1,453	(193)	910
Income taxes (recovery)	307	(396)	442	556	(159)	401
Earnings (loss) from operations	297	(464)	866	897	(34)	509
Extraordinary gain (loss)	121	404	—	111	—	—
Net Earnings (loss)	418	(60)	866	1,008	(34)	509

Earnings (loss) per share**

Before extraordinary	7¢	(17¢)	33¢	34¢	(1¢)	19¢
After extraordinary	10¢	(2¢)	33¢	38¢	(1¢)	19¢
Cash flow per share** from operations	50¢	20¢	87¢	75¢	23¢	70¢

* Revenue and Related Data for 1975 are for the 9 months ended September 30, 1975.

** Based on shares outstanding at year-end.

HEAD OFFICE

736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

DIVISION OFFICES

Bain Bros. Construction
8525 Argyll Road
Edmonton, Alberta T6C 4B2
Gen. Manager — D. Bain

Jennings International Drilling
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4
Gen. Manager — W. R. Kelsay

Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3
Gen. Manager — W. Otto

Northern Geophysical Ltd.
5911 Fifth Street S.E.
Calgary, Alberta T2H 1L5
Gen. Manager — D. G. Propp

PanCana-Associated Contractors Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4
Gen. Manager — W. L. Daniels

Admiralty Oil & Gas Ltd.
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

AUDITORS

Thorne Riddell & Co.
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company — Calgary, Montreal,
Toronto, Winnipeg, Regina and Vancouver.

SHARES LISTED

Common shares listed on Toronto Stock Exchange.

ANNUAL MEETING

The Annual Meeting of the Company will be held at the Holiday Inn,
Eighth Avenue and Sixth Street S.W., Calgary, Alberta, on Tuesday,
January 20th, 1976, at 10:00 A.M.

736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

Bain Bros. Construction
8525 Argyll Road,
Edmonton, Alberta T6C 4B2

Jennings International Drilling
736 Eighth Avenue S.W.
Calgary, Alberta T2P 1H4

Western Electronics Systems
5826 Burbank Road S.E.
Calgary, Alberta T2H 1Z3

W. E. Bolt Equipment Ltd.
6304 Burbank Road S.E.,
Calgary, Alberta T2H 2C2

Strom Fisheries Inc.
San Juan
Puerto Rico

Northern Geophysical Ltd.
5911 - Fifth Street S.E.,
Calgary, Alberta T2H 1L5

PanCana-Associated Contractors Ltd.
(Joint Venture)
736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4

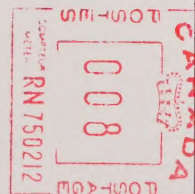
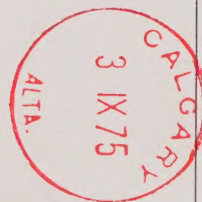
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INDUSTRIES LTD.
400 - 736 - 8th Avenue S.W.
Calgary, Alberta, Canada
T2P 1H4

PANCA

Mr. R.J. Doyle,
TORONTO GLOBE & MAIL,
140 King Street West,
Toronto, Ontario, M5H 1J5.

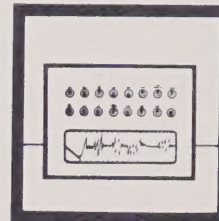
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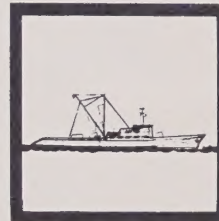
CONSTRUCTION



ELECTRONICS



FISHERIES



PIPE LINE



DRILLING



EQUIPMENT



GEOPHYSICAL



PANCANA
INDUSTRIES LTD.

INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1975

TO THE SHAREHOLDERS OF
PANCANA INDUSTRIES LTD.

Since I last reported to you in May the redirection of the Company, which we set in progress in mid-1974 and described in the 1974 Annual Report, has been moving on rapidly. The acquisition of 3 Sons Investments Ltd. which has the effect of broadening the Company's oil and gas base was finalized on May 31st when the United States Tax Ruling was received. Subsequently, at a Special Meeting of Shareholders on August 19th, 1975 you approved the sale of the Fisheries Division for a consideration of 550,000 shares of PanCan common stock plus \$125,000 cash. The 550,000 shares returned to the Company will be cancelled, thus reducing the number of shares outstanding to 4,166,413. Court approval is required for this cancellation but we are not anticipating any difficulties in this regard. The effect of this sale on the current year's earnings has been shown in this report in a pro forma statement of earnings.

The upturn in exploration activity which I mentioned in the first quarter report looks more definite now, but is developing more slowly than anticipated. It appears that it will have little effect on our Drilling and Geophysical Divisions' activity level until 1976. The Construction Division is again producing excellent results. The Equipment Division, which started operations on March 1st, has made great strides and I believe will make a solid contribution to our future earnings.

PanCan's Oil and Gas Division participated in the drilling of 6 wells (2.8 net wells) in the second quarter. Of these, 3 (1.4 net), all in the East Wainwright area, were gas wells and the remaining 3 were dry. Production from this area started in August. We are developing further programs in Canada and the United States and expect to participate in a further 8 wells (5 net) in the current year.

Fendall Lemming

August 28, 1975

President

PANCANA INDUSTRIES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(Unaudited)

	Six Months Ended June 30		
	1975	1975 Pro Forma (Note)	1974
REVENUE	\$ 8,627,000	\$ 8,291,000	\$11,509,000
COSTS AND EXPENSES			
Cost of sales and direct contract costs	6,587,000	6,287,000	10,266,000
Dry holes and abandonments	68,000	68,000	—
General and administration	734,000	734,000	545,000
Depreciation and depletion	695,000	624,000	699,000
Interest	316,000	236,000	437,000
EARNINGS (LOSS) BEFORE TAX AND EXTRAORDINARY GAIN	8,400,000	7,949,000	11,947,000
INCOME TAXES (RECOVERY)	227,000	342,000	(438,000)
	177,000	177,000	(220,000)
EARNINGS (LOSS) FROM CONTINUING OPERATIONS	50,000	165,000	(218,000)
EXTRAORDINARY GAIN, net of tax effect	—	—	422,000
NET EARNINGS	\$ 50,000	\$ 165,000	\$ 204,000
EARNINGS PER SHARE			
Continuing operations	1¢	4¢	(7¢)
Extraordinary	—	—	13
Number of shares outstanding	4,666,413	4,116,413	5¢
			3,199,000

NOTE: The Pro Forma Statement of Earnings is after giving effect to the sale of the Company's Fisheries Division and the cancellation of 550,000 shares of common stock.

Consolidated Statement of Changes in Financial Position

(Unaudited)

	Six Months Ended June 30		
	1975	1974	
SOURCE OF WORKING CAPITAL			
Continuing operations after adjustment for non-cash items	\$ 907,000	\$ 268,000	
Increase in long-term debt	194,000	—	
Proceeds of sale of Division	—	5,075,000	
Less working capital of that Division	—	(4,147,000)	
	1,101,000	1,196,000	
APPLICATION OF WORKING CAPITAL			
Fixed Assets Addition (net)	1,098,000	751,000	
Reduction of long-term debt	—	1,461,000	
Working capital deficit of 3 Sons Investments Ltd. as at December 31, 1974	27,000	—	
Other	—	10,000	
	1,125,000	2,222,000	
WORKING CAPITAL DECREASE	\$ 24,000	\$ 1,026,000	